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STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

AUDIT REPORT

YEARS ENDING JUNE 30, 1971 and JUNE 30, 1972

PLEASE RETURN

*Newland, Horn and Taylor*  
CERTIFIED PUBLIC ACCOUNTANTS

BUTTE, MONTANA 59701

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STATE OF MONTANA  
*Office of the Legislative Auditor*  
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December 15, 1972

The Legislative Audit Committee  
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the State Department  
of Highways for the two years ended June 30, 1972.

The audit was conducted by the public accounting firm of Newland, Horn,  
and Taylor, C.P.A.'s, of Butte, under a joint contract between the firm,  
the department, and our office. Pursuant to the contract provisions,  
the report has been directed to the Office of the Legislative Auditor  
as the firm's client.

The comments and recommendations contained in this report have been  
discussed with the director of the Department of Highways and the  
members of the State Highway Commission.

We wish to thank these officials and their staff for their cooperation  
and assistance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morris L. Brusett".

Morris L. Brusett  
Legislative Auditor

1870-1871

NEWLAND, HORN AND TAYLOR  
CERTIFIED PUBLIC ACCOUNTANTS  
53 WEST BROADWAY  
BUTTE, MONTANA 59701

State of Montana  
Office of Legislative Auditor  
Capitol Building  
Helena, Montana 59601

We have examined the Balance Sheet of the State Department of Highways, State of Montana, as of June 30, 1971 and June 30, 1972 and the Balance Sheets of the State-wide Motor Pool as of the same dates, together with the related statements of operations and surplus for the years then ended, and the budgetary accounts for each of the years. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we deemed necessary in the circumstances.

In our opinion, subject to the exceptions set forth below, the statements present fairly the financial position of the Department of Highways and the State-wide Motor Pool on June 30, 1971 and June 30, 1972 and the results of operations for the years then ended in conformity with generally accepted accounting principles applicable to Governmental units applied on a consistent basis during the two years and with the preceding year.

We take exception to the recognition of mere purchase orders as liabilities when the service or materials covered in purchase orders have not been received.

We further take exception to the reflection of 13 months expenses in the year ended June 30, 1972 resulting from the conversion of reporting expenses on the cash basis to the accrual basis.

This report is presented in four parts as follows:

Part One - Financial Statements for the Department.

- Exhibit "A" - Balance Sheets as of June 30, 1971 and June 30, 1972 in Comparative Form.
- Exhibit "B" - Statements of Operations for the Fiscal Years Ending June 30, 1971 and June 30, 1972 in Comparative Form.
- Exhibit "E" - Anticipated Cost of Highways Let and Estimated Receipts of Federal Aid and Cost of Highways to the State for the Years Ending June 30, 1971 and June 30, 1972.
- Exhibit "F" - Cash Received for Federal Aid and Expenditures in Building Highways for the Years Ending June 30, 1971 and June 30, 1971.



Exhibit "G" - Budget Statement for the Years Ending  
June 30, 1971 and June 30, 1972.

Schedule I - Reconciliation of Surplus for Each of  
the Two Years.

FOR THE STATE-WIDE MOTOR POOL

Exhibit "C" - Balance Sheets as of June 30, 1971 and  
June 30, 1972 in Comparative Form.

Exhibit "D" - Statements of Operations for the Fiscal  
Years Ending on June 30, 1971 and June  
30, 1972 in Comparative Form.

Schedule II - Reconciliation of Surplus for the Years  
Ending June 30, 1971 and June 30, 1972.

Part Two - Comments Regarding Balance Sheet and Statement of Operations  
Items.

Part Three - Other Comments.

Part Four - Recommendations.

We wish to express our appreciation to the personnel of the Highway Department  
for their spirit of cooperation and assistance. At no time was it impossible to ob-  
tain information and at no time was there any effort not to disclose information.

*Newland, Horn and Taylor*  
Newland, Horn and Taylor  
Certified Public Accountants

Butte, Montana  
December 11, 1972



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PART ONE

STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

AUDIT REPORT  
Years Ending June 30, 1971 and June 30, 1972

FINANCIAL STATEMENTS



STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

COMPARATIVE BALANCE SHEET

ASSETS

	AS OF JUNE 30, 1971	AS OF JUNE 30, 1972
Current Assets:		
Cash	\$10,887,447.18	\$ 6,469,288.64
Accounts receivable - Invoiced	289,083.64	200,280.88
Accounts receivable - Not invoiced	96,121.04	210,390.02
Inventories	<u>4,259,096.92</u>	<u>4,410,518.81</u>
	\$15,531,748.78	\$11,290,478.35
Accounts receivable - Statewide Motor Pool	184,385.41	2,952,171.68
Estimated receivables due for federal aid	91,775,783.10	84,949,359.55
Estimated cost of jobs not completed	<u>89,421,991.12</u>	<u>74,346,607.16</u>
Excess of estimated receivables over estimated costs	2,353,791.98	10,602,752.39
Fixed Assets:		
Real estate and equipment, at book value	15,687,751.51	14,472,811.96
Authorized work in progress	<u>714,363.76</u>	<u>1,046,351.86</u>
	16,402,115.27	15,519,163.82
Deferred Charges and Other Assets:		
Holding accounts	108,015.09	( 25,102.88)
Gravel production in progress	270,331.14	716,474.52
Unallocated payroll and equipment rentals	<u>( 485,429.23) *</u>	<u>( 131,113.22)</u>
	107,083.00	822,484.86
Total Assets	<u>\$34,364,958.44</u>	<u>\$41,187,051.10</u>

\*( ) Indicates over allocation.



STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

COMPARATIVE BALANCE SHEET

LIABILITIES

	AS OF JUNE 30, 1971	AS OF JUNE 30, 1972
Current Liabilities:		
Contractors claim and retainage	\$ 1,672,600.85	\$ 1,304,367.95
GVW collections payable to others	18,465.52	83,907.55
Legislative appropriations due Cities and Counties	1,553,980.91	2,416,186.43
Accounts payable	\$ 3,245,047.28	\$ 6,141,700.59
Surplus Accounts:		
Surplus from earnings - Schedule I invested in fixed assets	15,687,751.51	14,422,811.96
Balance	<u>14,967,470.74</u>	<u>20,153,233.22</u>
Surplus of retirees health insurance fund	1,163.16	1,189.58
Surplus donated by Federal Government	<u>463,525.75</u>	<u>468,115.75</u>
Total equity	<u>31,119,911.16</u>	<u>35,045,350.51</u>
Total Liabilities	<u>\$34,364,958.44</u>	<u>\$41,187,051.10</u>



STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

COMPARATIVE STATEMENTS OF OPERATIONS

For Years Ending June 30, 1971 and June 30, 1972

	YEAR ENDING JUNE 30, 1971	YEAR ENDING JUNE 30, 1972
Income:		
Motor fuel tax receipts	\$27,985,637.52	\$30,400,423.15
Gross vehicle weight tax receipts	6,803,812.02	7,776,547.10
U. S. Government permit and lease receipts	1,329,374.82	1,278,126.67
Miscellaneous GVW license fees	177,869.00	217,998.00
Vehicle excess size and weight permits	202,910.00	205,651.00
Miscellaneous receipts	82,222.30	50,157.92
Restricted route load permits	10,626.00	30,082.00
Handling charges	7,274.08	8,739.39
New auto caravan receipts	2,493.75	3,339.25
Special fuel permit fines	515.50	4,852.00
Total Income	\$36,602,734.99	\$39,975,916.48
Expenses:		
State portion of cost of highways	17,832,684.24	14,817,552.85
Maintenance of highways	10,798,861.26	11,834,333.83
Maintenance supervision	866,916.78	1,199,862.63
General administration	1,558,786.86	1,689,812.86
GVW collection expense	686,469.87	938,498.25
Field division engineering administration	549,721.94	686,322.32
Legislative appropriation expenses	541,137.52	2,301,918.26
State advertising expenses	337,886.47	597,700.59
Roadside rest area building repairs	129,684.00	169,989.16
Equipment repairs	69,252.84	115,049.50
Building repairs	112,133.44	119,740.43
Bad debts	9,894.52	6,225.67
Depreciation	48,420.32	58,717.34
Inventory adjustments	30,158.07	52,293.08
Motor fuel and road oil facilities repairs	9,427.16	11,062.84





STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

COMPARATIVE STATEMENTS OF OPERATIONS

For Years Ending June 30, 1971 and June 30, 1972

Page 2

	YEAR ENDING JUNE 30, 1971	YEAR ENDING JUNE 30, 1972
Expenses:		
Radio repairs and operating costs	\$ 127,666.69	\$ 194,417.12
Construction engineering administra- tion expense	390,680.67	328,948.92
Right-of-way administration expense	449,867.72	523,998.94
Preliminary engineering administra- tion expense	516,350.30	513,104.00
Highway interim committee reversion of funds	( 12,161.18)	
Total Expenses	<u>\$35,053,839.49</u>	<u>\$36,159,548.59</u>
Net Income	<u>\$ 1,548,895.50</u>	<u>\$ 3,816,367.89</u>



STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA  
MOTOR POOL  
COMPARATIVE BALANCE SHEET

	<u>ASSETS</u>			
	AS OF		AS OF	
	JUNE 30, 1971		JUNE 30, 1972	
Current Assets:				
Cash	\$	-0-	\$	299,483.82
Accounts receivable		9,387.43		89,961.62
Accounts receivable - Work in progress		-0-		35,954.31
		\$ 9,387.43		\$ 425,399.75
Fixed Assets:				
Office furniture and fixtures		5,163.32		13,387.03
Major road equipment		144,712.54		3,665,487.51
Less allowance for depreciation		-0-	( 874,075.73)	2,804,798.81
Real estate		3,309.00		3,309.00
Deferred Charges:				
Authorized work in progress-				
Equipment		-0-		102,689.85
Deferred charges	(	3,715.66)	(	5,398.17)
				97,291.68
Total Assets		<u>\$158,856.63</u>		<u>\$3,330,799.24</u>
	<u>LIABILITIES</u>			
Current Liabilities:				
Accounts payable	\$	-0-		\$ 398,605.04
Other Liabilities:				
Due Montana Department of Highways		\$184,385.41	\$	688,379.88
Equipment transfers by agencies			<u>2,482,481.45</u>	3,170,861.33
Deficit - Schedule I		( 25,528.78)		( 238,667.13)
Total Liabilities		<u>\$158,856.63</u>		<u>\$3,330,799.24</u>



STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA  
MOTOR POOL  
COMPARATIVE STATEMENT OF OPERATIONS  
For the Years Ending June 30, 1971 and June 30, 1972

	<u>YEAR ENDING JUNE 30, 1971</u>	<u>YEAR ENDING JUNE 30, 1972</u>
Income:		
Rentals	\$104,477.98	\$3,033,646.46
Expenses:		
Direct costs	\$ 85,636.99	\$1,649,707.61
Indirect costs	44,369.77	700,540.41
Depreciation	-0-	882,081.22
Vehicle loss expenses	<u>-0-</u>	<u>14,455.57</u>
Total expense	<u>130,006.76</u>	<u>3,246,784.81</u>
Net Loss	<u>(\$ 25,528.78)</u>	<u>(\$ 213,138.35)</u>



## EXHIBIT "E"

STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANAANTICIPATED COST OF HIGHWAYS LET AND ESTIMATED RECEIPTS  
OF FEDERAL AID AND COST OF HIGHWAYS TO STATE

	YEAR <u>JUNE 30, 1971</u>	YEAR <u>JUNE 30, 1972</u>
Estimated costs of highway letting	\$105,860,584.15	\$82,282,112.79
Estimated Federal Aid	<u>88,996,738.34</u>	<u>65,708,531.92</u>
Estimated Cost to State of Montana	16,863,845.81	16,573,580.87
Job closing adjustments	<u>968,838.43</u>	<u>( 1,756,028.02)</u>
Cost to State per Exhibit "B"	<u>\$ 17,832,684.24</u>	<u>\$14,817,552.85</u>





STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

CASH RECEIVED FOR FEDERAL AID AND EXPENDITURES IN  
BUILDING HIGHWAYS

	<u>YEAR ENDING JUNE 30, 1971</u>	<u>YEAR ENDING JUNE 30, 1972</u>
Received cash for Federal Aid	\$74,770,202.10	\$73,645,131.95
 Cash Paid for Highway Construction:		
To contractors	69,046,838.05	75,067,099.51
For other costs	<u>18,992,022.22</u>	<u>19,227,129.54</u>
 Total	<u>\$88,038,860.27</u>	<u>\$94,294,229.05</u>

Note: This statement is provided for information only. The operations of Federal Aid, its receipt and expenditure does not affect the income and expenses of the Department of Highways as the only cost of highways to Montana is the portion paid for by the State which is reflected in Exhibit "B" on the basis of charging expenses when a contract is entered into and not as paid.



STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

STATEMENT OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH AUTHORIZATIONS  
For Fiscal Year Ended June 30, 1971

	RESERVE FOR ENCUMBRANCES JUNE 30, 1970	APPROPRIATIONS	SERVICES PERFORMED FOR OTHER AGENCIES	EXPENDITURES	AMOUNT REVERTED	JUNE 30, 1971 UNENCUMBERED BALANCE
1. Earmared Revenue Fund						
State Highway Account						
(a) Personal Services		\$ 11,445,241.00	\$ 66,977.81	\$ 9,981,893.31	\$1,530,325.50	-0-
(b) Operation & Capital	\$ 678,596.49	21,543,140.00	247,581.71	22,469,318.20	-0-	-0-
(c) Grants & benefits, cities & counties	3,025,337.83	3,000,000.00	13,168.70	2,770,016.21	-0-	\$3,268,490.32
2. Federal & Private Revenue Fund						
State Highway Account						
(a) Personal Services	-0-	12,091,456.00	-0-	12,011,207.38	80,248.62	-0-
(b) Operation & Capital	-0-	74,961,064.00	252,783.20	70,167,617.51	5,046,229.69	-0-
3. Earmarked Revenue Fund						
State Highway for Advertising						
(a) Personal Services	-0-	40,643.00	6,037.17	45,746.00	934.17	-0-
(b) Operations & Capital	-0-	307,357.00	2,592.43	304,458.69	5,490.74	-0-
4. Revolving Fund from Earmarked Revenue Fund for Reimbursable Expenditures	250,000.00	-0-	-0-	-0-	250,000.00	-0-
5. Revolving Fund from Earmarked Revenue Fund for Motor Pool	240,000.00	-0-	( 240,000.00)	-0-	-0-	-0-
6. Earmarked Revenue Fund for						
(a) Office & Shop Building	3,926.86	-0-	-0-	-0-	3,926.86	-0-
(b) Butte Administration Bldg.	25,191.00	-0-	-0-	14,851.36	10,339.64	-0-
(c) Statewide Maintenance Bldg.	101,297.71	-0-	-0-	-0-	-0-	101,297.71
(d) Land Acquisition & Architect fees	272,425.51	-0-	-0-	89,224.74	-0-	183,200.77
(e) Equip., Sand & Misc. Bldgs.	536,089.59	-0-	143.20	356,971.82	-0-	179,260.97
Total	\$5,132,864.99	\$123,388,901.00	\$349,284.22	\$118,211,305.22	\$6,927,495.22	\$3,732,249.77



STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA  
STATEMENT OF EXPENDITURES AND ENCUMBRANCES COMPARED WITH AUTHORIZATION  
For Fiscal Year Ended June 30, 1972

RESERVE FOR ENCUMBRANCES JUNE 30, 1971	APPROPRIATIONS	SERVICES PERFORMED FOR OTHER AGENCIES	AUTHORIZED AMENDMENTS	FUNDS TRANSFERS	EXPENDITURES	ENCUMBERED	AMOUNT REVERTED	UNENCUMBERED BALANCE JUNE 30, 197
1. General Operations								
(a) Earmarked Revenue Fund	\$ 4,453,726.00	\$ 63,274.32	6,863.00	-0-	\$ 3,306,313.98	\$ 155,071.42	\$1,062,477.92	-0-
(b) Federal & Private Revenue Fund	707,022.00	-0-	-0-	-0-	612,613.15	8,609.67	85,799.18	-0-
2. Construction Program								
(a) Earmarked Revenue Fund	15,328,180.00	164,556.73	-0-	(\$13,025,000.00)	2,380,758.48	86,978.25	-0-	-0-
(b) Federal & Private Revenue Fund	63,161,107.00	59,876.25	10,506,791.00	13,025,000.00	86,752,774.25	-0-	-0-	-0-
3. Maintenance Program from Earmarked Revenue Funds	14,142,149.00	2,488,574.54	-0-	-0-	15,392,499.78	1,238,223.76	-0-	-0-
4. Advertising Program from Earmarked Revenue Fund	600,000.00	766.44	-0-	-0-	588,625.66	10,440.30	1,700.48	-0-
5. Reconstruction								
(a) Earmarked Revenue Fund	2,308,663.00	136,504.96	-0-	1,731,497.25	4,104,507.64	72,157.57	-0-	-0-
(b) Federal and Private Revenue Fund	10,040,023.00	35,585.82	-0-	( 1,692,069.60)	4,699,595.77	62,234.57	3,621,708.88	-0-
6. Revolving Fund from Earmarked Revenue Fund for Reimbursable Expenditures	250,000.00		-0-	-0-	-0-	-0-	250,000.00	-0-
7. Revolving Fund from Earmarked Revenue Fund for Motor Pool	500,000.00	( 500,000.00)	-0-	-0-	-0-	-0-	-0-	-0-
8. Earmarked Revenue Fund for								
(a) Grants & Benefits Cities & Counties	\$3,260,490.32	3,000,000.00-Note 1	-0-	( 39,427.65)	2,676,059.71	-0-	-0-	\$3,553,122.99
(b) Statewide Maintenance Buildings	101,297.71		-0-	-0-	-0-	-0-	101,297.71	-0-
(c) Land Acquisition and Architect Fees	180,200.77		-0-	-0-	147,997.13	-0-	35,203.64	-0-
(d) Equipment, Sand & Misc. Buildings	17,260.97		-0-	-0-	120,231.75	4,534.87	76,265.13	1,073,211.11
Total	\$3,732,249.77	\$2,449,139.06	\$10,513,654.00	-0-	\$120,781,977.30	\$1,638,300.41	\$5,234,471.94	\$5,616,231.11

Note 1: Authorization subsequent to fiscal year ending June 30, 1972.



STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

RECONCILIATION OF SURPLUS FROM EARNINGS  
For the Years Ending June 30, 1971 and June 30, 1972

	YEAR ENDING JUNE 30, 1971	YEAR ENDING JUNE 30, 1972
Surplus at beginning of year	\$29,039,253.75	\$30,655,222.25
Less or addition from July 1, 1970		
Retirees' Health Insurance surplus	\$ 842.70	
Motor pool deficit	( 7,137.70)	
	<u>6,295.00</u>	
Adjusted balance - July 1, 1970 - Highway	29,045.548.75	
Additions:		
Net income - Exhibit "B"	1,548,895.50	3,816,367.89
Adjustment for reconciliation of subsidiary ledger for fixed assets with control	60,778.00	102,921.54
Small surplus adjustments		<u>1,533.50</u>
Deductions	None	None
Balance end of year	<u>\$30,655,222.25</u>	<u>\$34,576,045.18</u>





SCHEDULE II

STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA  
MOTOR POOL  
RECONCILIATION OF DEFICIT ACCOUNT  
For the Years Ending June 30, 1971 and June 30, 1972

	<u>YEAR ENDING JUNE 30, 1971</u>	<u>YEAR ENDING JUNE 30, 1972</u>
Deficit at beginning of year	-0-	(\$ 25,528.78)
Changes		
Net loss for the year	<u>(\$25,528.78)</u>	<u>( 213,138.35)</u>
Deficit at end of year	<u>(\$25,528.78)</u>	<u>(\$238,667.13)</u>



PART TWO

STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

COMMENTS REGARDING  
BALANCE SHEET AND OPERATING STATEMENT ITEMS  
As of June 30, 1971 and June 30, 1972  
and  
For the Years Ending on those Dates



## BALANCE SHEET ITEM COMMENTS

## Assets - (Exhibit "A")

## (1) Cash

The cash balances were held in the Treasury of the State of Montana as of the close of each fiscal year as follows:

Fund	Name of Fund	June 30, 1971	June 30, 1972
213800	Highway Earmarked Revenue Fund	\$ 6,179,814.96	\$ 1,700,102.81
916500	GVW Holding Account Fund	45,424.82	83,481.11
410410	Federal and Private Revenue Fund	1,392,303.92	1,126,978.18
707900	Retirees Insurance Revolving Fund	1,163.16	1,189.58
527700	Outdoor Sign Control Fund	-0-	1,284.00
213800	Cities and Counties Earmarked Revenue Fund	3,268,490.32	3,553,002.96
	Petty cash	250.00	3,250.00
	Total Funds	\$10,887,447.18	\$ 6,469,288.64

For a further comparison of total funds, the balances totaled \$7,864,436.86 on June 30, 1970 and \$9,409,931.15 on June 30, 1969.

The Highway Earmarked Revenue Fund (#213800) was down on June 30, 1972 for the reason that loans to the Federal and Private Revenue Fund (#410410) increased from \$3,790,004.46 on June 30, 1971 to \$11,274,015.54 on June 30, 1972. A principal reason for the necessity to make the additional loans was caused by the failure of the Engineering Department of the Department of Highways to cause modifications to be made to road contracts so that agreements could be entered into with the Federal Government and Federal Aid money obtained.

Since June 30, 1972, however, more than \$3,000,000.00 in modifications have been completed which should bring the cash balance in fund #213800 more near normal.

It is to be noted that the amounts owing by one fund to the other are not reflected on the balance sheet as the transactions with respect to loans are both agency transactions as distinguished from transactions with other agencies.

## (2) Accounts receivable - Invoiced

The accounts receivable list was made up of 211 accounts on June 30, 1972. Except for two amounts owing by Government Bodies the amounts due on account is small individually.

Many corrections are required to the list of receivables so as to eliminate credits and to tie in with the receivables - Work in progress. To this end, we have provided the receivables bookkeeper with a list of 50 corrections and transfers between accounts.



A list of receivables totaling \$8,476.30, which we consider bad, all over six months old, has been provided to the accounting department with a recommendations that the accounts be charged off as a loss.

(3) Accounts receivable - Not invoiced

Transfers are made from this account, to the account receivable discussed above, when the charges and services being rendered have been completed. Many of the adjustments to accounts receivable recommended above also affect this account. In addition to these adjustments, we have provided the receivables bookkeeper with a list of accounts that should be investigated further by reason of their being retained in this account for what seems to us a long time.

(4) Inventories

Inventories as of the balance sheet dates are as follows:

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Construction material	\$ 90,527.32	-0-
Gravel stockpiles	2,394,980.79	\$ 2,200,808.02
Office and engineering supplies	123,899.71	135,570.81
Equipment parts and supplies	471,361.64	-0-
Maintenance materials and supplies	1,115,283.32	1,985,609.41
Laboratory supplies and materials	<u>63,044.14</u>	<u>88,530.57</u>
Totals	\$ 4,259,096.92	\$ 4,410,518.81

In our audit report for June 30, 1970 and in a management letter pertaining to that audit, we made extensive recommendations as to the need to improve the inventory system of the Department of Highways. Good progress has been made in carrying out our recommendations but the new system is not as yet fully implemented. It is anticipated that before the close of this fiscal year it will be.

The inventory as of June 30, 1972 is probably the best inventory reporting ever done by the Department and is as of June 30th whereas in prior years the inventory was taken in May and June. With the full implementation of the recommendations previously made, the good results that come from a proper inventory system should materialize.

During the fiscal year July 1, 1971 to June 30, 1972, several inventory accounts were combined which accounts for two less accounts on June 30, 1972 as compared to June 30, 1971, as indicated in the above schedule.

Our test count of inventory in the field resulted, in most instances, in the same count as the physical inventory reported to the Helena Headquarters Office. Only minor difference resulted from the test count.

The number of years inventory of gravel stockpiles on hand at both June 30, 1971 and June 30, 1972 was less than for June 30, 1969 and June 30, 1970, which we look upon as an improvement in the use of funds. On June 30, 1971 the inventory on hand represented 2.65 years usage and on June 30, 1972, computed on the same basis, 2.99 years.





(5) Accounts receivable - State-wide Motor Pool

The balance reflected as owing by the State-wide Motor Pool represents cash advances in excess of \$600,000.00 plus equipment transfers for the balances, which were charged off on the records of the Department of Highways as an expense or to surplus.

As these advances and possibly the transfers of equipment may represent a diversion of Highway Funds, for the time being, until the whole matter of the motor pool is resolved, we recommend that the charge-off be deferred.

A complete discussion of the Motor Pool problem will be found in the section of this report setting forth the Motor Pool financial statements.

(6) Estimated Receivables due for Federal Aid and Estimated Costs for Jobs not Completed

Under the method of accounting employed by the State Department of Highways, as road construction jobs are let, all costs applicable to the job - construction - construction engineering - right-of-way costs, etc., are recorded as a liability in reserve accounts. At the same time, in addition to recording the estimated State expense for roads included in the letting the amount estimated for the Federal Aid to be received on the jobs let is recorded as a receivable owing by the Federal Government.

By reason of the failure to make modifications to contracts as discussed in (1) above (Cash), the receivables and payables are both understated, the only net effect on the surplus and expenses of the Department would be for the portion applicable to the States share of the cost of modifications.

On June 30, 1971, estimated receivables exceed estimated liabilities by \$2,353,791.98 and on June 30, 1972 the excess was \$10,602,752.39, a net asset at the close of each year.

(7) Real Estate and Equipment

The details of the balance sheet amounts for each year are as follows:

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Equipment		
Office furniture and fixtures at cost	\$ 1,115,706.19	\$ 1,109,874.71
Laboratory equipment at cost	629,773.80	629,428.06
Photographic equipment at cost	169,674.07	182,120.57
Engineering equipment at cost	413,862.31	450,545.52
Shop tools and equipment at cost	319,898.69	323,685.93
FM radio equipment at cost	346,399.92	420,700.09
Major road equipment	13,134,827.10	8,558,865.11
Minor maintenance equipment at cost	82,729.96	99,360.40
Airplane at cost	<u>293,675.00</u>	<u>293,675.00</u>
Totals	16,506,547.04	12,068,255.39
Less accumulated depreciation	<u>10,287,794.35</u>	<u>7,133,057.57</u>
Book value of equipment	\$ 6,218,752.69	\$ 4,935,197.82



	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Highway buildings	\$ 8,054,661.44	\$ 8,151,596.64
Motor storage facilities	167,084.21	187,389.34
Road oil storage facilities	357,240.73	363,868.36
Radio sites and buildings	74,007.51	74,105.07
Roadside rest areas	384,595.23	390,421.55
Excess land	211,525.74	146,473.90
Sand and gravel pits for maintenance	47,702.16	47,702.16
Sand and gravel pits for construction	169,498.48	170,679.96
Land held for stockpiling	<u>2,683.32</u>	<u>5,377.16</u>
Total real estate at cost	9,468,998.82	9,537,614.14
Total real estate and equipment at cost	25,975,545.86	21,605,869.53
At book value	\$15,687,751.51	\$14,472,811.96

Acquisitions of equipment, taking into consideration transfers to the Motor Pool, were \$1,862,333.45 for the year June 30, 1971 and \$1,287,601.03 for the year ending June 30, 1972. Additions to the real estate totaled \$945,715.98 and \$68,615.32 for the respective years. Our physical inspection of the equipment, on a test basis, resulted in a complete verification to our satisfaction and indicated to us that control over equipment is very effective.

Sales of excess land amounted to only \$100.00 in the first year covered by our audit, but sales for the year ending on June 30, 1972 totaled \$74,419.74.

Depreciation is not computed on buildings and on some equipment for the reason that no allowance for Federal Aid would be available with respect to the applicable depreciation.

(8) Authorized Work in Progress

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Balance	\$ 714,363.76	\$ 1,046,351.86

This account reflects construction authorized by the Highway Commission but which is in progress of being completed. On June 30, 1972 the largest costs apply to the new Helena Headquarters Building and total \$785,530.52.

(9) Holding Accounts

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Balance	\$ 108,015.09	(\$ 25,102.88)

The Holding Accounts are used for a deferral of expenditures pending a determination as to proper allocation, particularly as to the allocation of these costs for purposes of Federal Aid.

Great progress has been made in keeping these accounts at a minimum as recommended in our audit for the year ending June 30, 1970, when the balance in the accounts were in excess of \$500,000.00



(10) Gravel Production in Progress

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Balance	\$ 270,331.14	\$ 716,474.52

This account accumulates costs in connection with gravel production for gravel stockpiles. The balance on June 30, 1972 includes \$330,748.03 of purchase orders recorded as liabilities, although the Department had not been invoiced for any actual production by the contractors holding the production contracts.

(11) Unallocated payroll and equipment rentals

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Unallocated payroll costs	(\$ 331,939.86)	\$ 589.94
Unallocated equipment rentals	( 153,489.37)	130,523.28
Total	\$ 485,429.23)	\$ 131,113.22

Unallocated payroll costs above represents the over or under allocation of payroll costs consisting of payroll costs other than salaries and wages, such as, leave taken, industrial accident insurance, PERS, FICA, hospital insurance premiums, etc. It is necessary to allocate these costs on a percentage basis in order to charge other agencies properly for all costs and in order to make a full charge for costs that will be reimbursed by Federal aid.

For the year ended on June 30, 1971 the payroll costs as described above were over allocated to the extent of \$331,939.86 but at the close of the second year, June 30, 1972, the recommendation of our prior audit was achieved in that the account wound up with a small balance.

Unallocated equipment rentals represents the balance of actual cost of operating equipment, such as, fuel, depreciation, repairs, insurance, etc., after charging costs for equipment use to various departments of the Department of Highways, and to others including the charge for Federal Aid, at a predetermined rate per mile or per hour. The unallocated amount or the over-allocated amount was an over-allocation for June 30, 1971. The balance on June 30, 1972 is an improvement over the situation on June 30, 1970 and taking into consideration that rentals of in excess of \$1,800,000.00 was charged during the year is an understandable amount.

LIABILITIES -(EXHIBIT "A")

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
(12) Contractors Claim and Retainage	\$ 1,672,600.85	\$ 1,304,367.95
Gross vehicle collections payable to others	18,465.52	83,907.55

Contractors retainage is a hold back on invoices submitted by contractors claiming progress payments. On June 30, 1969 the retainage hold back was over \$3,000,000.00 but with a change in the law whereunder the contractors could provide security and receive the holdback, this liability has decreased materially.





The payable on account of GVW section income represents amount due others who share in the collections, such as counties with respect to license fees collected. The liability also includes deposits that will be refunded.

(13) Legislative Appropriation Due Cities and Counties

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Balance	\$ 1,553,980.91	\$ 2,416,186.43

Beginning with the fiscal year ending on June 30, 1968, when the Legislature appropriated \$1,500,000.00 for City and County aid in road construction, a total of \$12,000,000.00 had been appropriated. The current appropriation is \$3,000,000.00 per year.

Aid to Cities and Counties since 1968 has been \$9,583,813.57 as follows:

To June 30, 1970	\$ 4,250,991.18	
Fiscal year June 30, 1971	<u>3,195,027.91</u>	
Total to June 30, 1971	7,446,019.09	
Legislative appropriation to June 30, 1971	9,000,000.00	
Due Cities and Counties on June 30, 1971	1,553,980.91	\$ 1,553,980.91
Legislative appropriation, Year June 30, 1972		<u>3,000,000.00</u>
Total		4,553,980.91
Aid for fiscal year June 30, 1972		<u>2,137,794.48</u>
Due Cities and Counties on June 30, 1972		\$ 2,416,186.43

(14) Accounts Payable

Prior to the fiscal year ending June 30, 1972 accounts payable were not recognized in the records until actual payment was made. In accordance with the authority granted by the Legislature, the State Controller has established procedures for carrying out the wishes of the Legislature to reflect accounts payable in the records of all departments of the State of Montana.

Therefore, accordingly the records for the year June 30, 1972 include a recognition of all liabilities owing on June 30, 1972 including purchase orders for which the service or materials had not been rendered or fulfilled by the close of the fiscal year. Included are payables and purchase orders for payroll, equipment, inventories, and expenses.

(15) Surplus Accounts

Surplus from operations for the two years is \$30,655,222.25 and \$34,576,045.18 on June 30, 1971 and June 30, 1972 respectively. The surplus account is divided then in two parts in order to segregate the portion invested in fixed assets.





Surplus of retirees health insurance fund is the excess of receipts over expenses for the fund.

Donations by the Federal Government represent donations of equipment.

(16) Statement of Operations Item Comments (Exhibit "B")

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Income	\$36,602,734.99	\$39,975,916.48

The increase in income from the year 1971 to the year 1972 of \$3,373,181.49 is accounted for by the most part by motor fuel tax receipts although most type of tax collection increased. Comparing the year ended June 30, 1972 with the years ended June 30, 1969 and June 30, 1970 the increase in total income was \$8,552,002.83 and \$6,124,845.52 respectively.

(17) Expenses

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Total for the year	\$35,053,839.49	\$36,159,548.59

Exhibit "B" reflects the expenses for each category in comparative form for the years ended June 30, 1971 and June 30, 1972. As indicated in Exhibit "B" and above, expenses increased by \$1,105,709.10 from the 1971 year to the 1972 year. The cost of building highways to the State decreased by \$3,015,131.39 in the 1972 year so eliminating this decrease other expenses increased by \$4,120,840.49. The principal increase was in the Legislative appropriation expenses which will be discussed below.

(18) State's portion of Cost of Highways

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Total for the year	\$17,832,684.24	\$14,817,552.82

These amounts represent the cost to the State of Montana to build roads. The balance of the cost is paid for by Federal Aid.

The Department of Highways records as an expense, the State's share of costs as contracts are let, although the contract may take many months to complete. Another method would be to record costs as the contract progresses and as requests for progress payments are made, but we are not recommending that a change be made.

(19) Legislative Appropriation Expenses

	<u>June 30, 1971</u>	<u>June 30, 1972</u>
Totals	\$ 541,137.52	\$ 2,301,918.26

The Legislature has been allocating additional expenses to be born by the State Department of Highways. For the year ended June 30, 1972 the Legislative appropriations were spent as follows:



*Dropped  
Said*

Highway Patrol	\$ 1,883,258.56
Highway Safety	27,617.77
Board of Equalization	249,546.93
Support of Administrative Services	141,495.00

The matter of whether having the State Department of Highways pay for Highway Patrol expenses constitutes a diversion of Highway Funds is now in the courts.

(20) State-Wide Motor Pool Comments

The Forty-Second Legislative Assembly enacted legislation creating a State-Wide Motor Pool, effective July 1, 1971 and repealing a law enacted in 1969 of a similar nature. The State Department of Highways was designated as the custodian of the Motor Pool vehicles and was given power to formulate rules governing the use and operation of the vehicles. An appropriation for a \$500,000.00 revolving fund to cover reimbursable costs was also appropriated from the earmarked revenue fund.

Rates for use of equipment were established by personnel of the State-Wide Motor Pool to cover cost of fuel, repairs, insurance, depreciation, tires and other operating costs. In the first full year of operation as reflected by Exhibit "D", the operations resulted in a loss of \$213,138.35 at the established rates which were apparently too low. To pay its way, the Motor Pool rates should be increased by about 7% on the average. In addition, to cover replacement of vehicles, a charge for depreciation must be made in computing the rates, as was done for the year just ended. With a situation of this kind, that is, rates being sufficient to cover expenses incurred plus depreciation, then the State-wide Motor Pool could make its own replacements of equipment and, if the pool was to be discontinued, would be in a position to return to the agencies the value of equipment when transferred, plus cash contributions made, such as was done by the State Department of Highways. In the meantime, that is, during the time when in operation, the Motor Pool could not repay loans or pay for equipment transferred, but the loans and values for the transferred equipment would be secure.

A complication exists by reason of an Attorney General's opinion of May 22, 1972, opinion No. 45, which states, in part, that only the cost of maintenance, service and storage may be charged in fixing rates.

Under that interpretation of the law, advances made by agencies of cash or equipment could never be repaid, nor could replacement of equipment be made. Without doubt, the law should be made more specific and practical by the next Legislature.



PART THREE

STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

OTHER COMMENTS  
Years Ending June 30, 1971 and June 30, 1972





## OTHER COMMENTS

### (1) Financial Districts

The State of Montana is broken down into twelve different financial districts for the purpose of apportioning highway construction funds. Each year the Commission apportions the funds available to the various districts.

#### Federal-Aid Primary Highway System

Funds are apportioned to the Federal-Aid Primary System in each district on the basis of incompleeted mileage. The Commission may increase the expenditures made in each district for the Federal-Aid Primary System by an amount equal to fifteen percent of the money allocated to each district in the latest year.

#### Federal-Aid Secondary Highway System

The available funds for the Federal-Aid Secondary System are apportioned to each district on the basis of a four factor formula. The formula used to determine how much each district shall receive is as follows:

- (1) One-fourth in the ratio of land area.
- (2) One-fourth in the ratio of rural population.
- (3) One-fourth in the ratio of rural road mileage.
- (4) One-fourth in the ratio of value of rural lands.

After the funds have been apportioned to each district, they are further apportioned to each county on the same basis.

The expenditures made in any one district for Federal-Aid Secondary System may not exceed 15% more than the amount of money allocated to the district in the latest year. Expenditures made in any county may exceed the amount apportioned to that county by three times the latest apportionment.

#### Federal-Aid Interstate Highway System

The apportionment of funds available for Federal-Aid Interstate Highway System among the districts is based on the estimated cost of constructing or reconstructing the system in each district. The expenditures made related to The Federal-Aid Interstate System may not be more than 100% over the latest allocation.

#### Excess Expenditures

During the course of our audit, a review was made of the records related to the financial districts. Based on this review, we have determined that various districts and counties had a balance of excess expenditure as of June 30, 1971 and June 30, 1972. The following schedule sets forth the balances of excess expenditures:





	<u>Date</u>	<u>Latest Allocation</u>	<u>Allowable Bal. of Excess Expenditures</u>	<u>Actual Bal. of Excess Expenditures</u>	<u>Excess Over Allowable</u>
<u>Interstate Highway System</u>					
6	6/30/71	\$560,171.25	\$560,171.25	\$1,504,338.19	\$944,216.94
6	6/30/72	642,244.81	642,244.81	781,878.66	139,633.85
<u>Primary Highway System</u>					
4	6/30/72	471,820.05	70,773.01	125,063.42	54,290.41
9	6/30/71	263,700.98	39,555.15	76,318.58	36,763.43
11	6/30/71	439,360.23	65,904.03	154,435.53	88,531.50
<u>Secondary Highway System</u>					
3 Daniels	6/30/71	33,397.48	100,192.44	183,936.81	83,744.37
4 Dawson	6/30/71	43,586.95	130,760.85	169,742.04	38,981.19
7 Jefferson	6/30/71	27,057.90	81,173.70	180,293.31	99,119.61
8 Mineral	6/30/72	34,071.50	102,214.50	137,309.48	35,094.98
8 Powell	6/30/71	38,671.64	116,014.92	241,054.30	125,039.38
9 Beaverhead	6/30/71	70,770.04	212,310.12	300,365.02	88,054.90
9 Deer Lodge	6/30/71	20,484.68	61,454.04	109,638.95	48,184.91
12 Rosebud	6/30/71	63,495.81	190,487.43	275,215.12	84,727.69

(2) Modifications to Road Contracts

In (1) and (6) of Part Two, we referred to the lag in making modifications to contracts which would have the effect of making additional cash available to the Department.

On June 30, 1972, contracts requiring modification totaled for the State's portion, \$8,194,494.71.

(3) Internal Control

Internal control of cash is excellent providing for a division of duties its handling both in the accounting section and in the GVW operation.

Payroll control is adequate as is control of purchases and payment of claims.

(4) Exhibit "G" reflects the operations of the budget for the two years. The department performs services for other departments and is reimbursed therefore. As the cost of services are performed the Department's budget is being consumed but the amounts so spent are restored to the budget as indicated in Exhibit "E".

(5) Exhibit "B" reflects the income and expenses of the Department of Highways. In addition to the cash received which created the income, there were funds received from the U. S. Government as Federal-Aid. The Federal-Aid and disbursement thereof is not reflected in Exhibit "B" as no income or loss results from the Aid. The only expense is the State's portion of the cost of Highways which is reflected under that designation in Exhibit "B".



For information purposes, the cash received and disbursements for highway purposes is set forth in Exhibit "F".

- (6) Our agreement with the Montana State Office of the Legislative Auditor provided that we would determine if the State Department of Highways was complying with the laws of the State of Montana applicable to Highways.

In our opinion, the Department is complying except in two instances as follows:

- (a) The law with respect to financial districts as discussed in (1) of Part Three.
- (b) Chapter 286, Fortieth Legislative Assembly, enacted a law providing for the licensing of Junk Yards and for the payment of a yearly license fee of \$25.00. The law became effective on March 2, 1967 but to date no fees have been collected nor licenses issued although under the law the Highway Department was delegated to do so.

The Department does not have control of the legislative appropriations discussed in (19) of Part Two which may result in a diversion of Highway Funds. The matter of whether use of Highway Funds for the Highway Patrol is a diversion is now in the courts.

(7) Centennial Train Murals

In April, 1971 Centennial Train Murals which were being carried in the inventory at \$11,478.00 were written off to expense.

- (8) Implementation of Recommendation Made in Audit Report for the two year period ending on June 30, 1970.

Recommendations:	<u>Adopted</u>	<u>Partly Adopted</u>	<u>Not Adopted</u>
(1) Regarding account department	x		
(2) Inventories		x	
(3) Inventory Stockpiles	x		
(4) Insurance		x	
(5) Financial District accounting		x	
(6) Equipment	x		
(7) Re excess land			x
(8) Re holding accounts	x		
(9) Re Unallocated payroll and equipment expense	x		
(10) Re surplus account use	x		
(11) Contracts with outside consultants	x		
(12) Contracts for Utility Relocation costs	x		
(13) Coding errors	x		
(14) General Ledger Account	x		



With respect to (2) inventories, and (4) insurance, the recommendations are in process of being carried out. With respect to (5) financial district accounting, recommendation has not been adopted as the function is still being performed in both the budget section and the project control section. The recommendation with respect to use of Data Processing in this function has been adopted.



PART FOUR

STATE DEPARTMENT OF HIGHWAYS  
STATE OF MONTANA

RECOMMENDATIONS





## RECOMMENDATIONS

### (1) Excess Land.

Sales of excess land amounted to \$100.00 in the first fiscal year audited and \$74,419.74 during the second year. As was done in the last audit, we recommend an appraisal of land not on the books and greater sales efforts.

### (2) Compliance.

We recommend that Chapter 286 enacted by the Fortieth Legislative Assembly providing for the licensing of Junk Yards and payment of license fees be implemented, and also that the financial district law be observed.

### (3) Costs allocated to State-wide Motor Pool.

A percentage rate of 63.16% is charged to the Motor Pool for building maintenance, utilities, supervision, etc. For expenses applicable to the Motor Pool where there is a joint use of the facilities, it is recommended that a study be made of whether or not the rate is fair based upon usage by the Motor Pool as compared to usage by the Department.

### (4) Modification to Road Contracts.

An effort should be made to modify all contracts requiring modification to the end that cash will be brought into the State Treasury as discussed in (1) of Part Two.

After the contract modifications have been brought up-to-date, then, modification to contracts should be made monthly so that contract modifications will be current.

### (5) Inventory Control.

Good progress has been made in placing the inventory on Data Processing equipment. It is recommended that this effort be continued so that a complete conversion will have taken place by the close of the current year.

### (6) Legislation Regarding the State-wide Motor Pool.

The present law regarding the operations of a State-wide Motor Pool is impractical, especially so in view of the Attorney General's opinion limiting the charge that may be made to only a few costs and excluding depreciation as a cost of operation.

A law that would work and a law that would be practical could provide for a transfer of equipment to the Motor Pool with the agency transferring the equipment becoming a creditor of the Motor Pool. The debt would not, however, become due until the Motor Pool idea was abandoned. The Motor Pool would establish rates which would include all costs, including depreciation. If the rates are exactly right then at the close of the year there would be no loss or gain to the Motor Pool and still enough funds would have been generated to make equipment replacements. Whenever the results of operations, rental income less expenses, including depreciation is a significant amount, then rates should be revised.



(7) Advances and Equipment Transfers to the State-wide Motor Pool.

The Department should reinstate the amount of cash and equipment transferred to the State-wide Motor Pool as a debt owing by the Motor Pool as reflected in Exhibit "A" for June 30, 1972.

(8) Financial District Law.

If the present Financial District Law is impractical, legislation should be sought which would change this.

(9) Accounts Receivable Accounts.

Numerous errors were found in the subsidiary ledgers for the accounts receivable and receivables not billed, both in the Department ledgers and the State-wide Motor Pool.

These errors were mainly the result of failing to carry through entries for offsetting amounts and by reason of failure to transfer accounts from one receivable account to another.

All transfer entries should be made immediately and the ledgers maintained with more interest and dedication in the future.





